



Takata Airbag Tort Compensation Trust Fund

**Audited Special-Purpose Financial
Statements with Supplementary Information
For the Years Ended December 31, 2023 and 2022**

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Independent Auditor's Report

Trustee
Takata Airbag Tort Compensation Trust Fund
Boston, Massachusetts

Opinion

We have audited the accompanying special-purpose financial statements of the Takata Airbag Tort Compensation Trust Fund (the Trust) (a statutory Trust originally created under the laws of the State of Delaware), which comprise the special-purpose statements of assets, liabilities, and net assets as of December 31, 2023 and 2022, and the related special-purpose statements of changes in net assets and the special-purpose statements of cash flows for the years then ended, and the related notes to the special-purpose financial statements.

In our opinion, the accompanying special-purpose financial statements present fairly, in all material respects, the net assets of the Trust as of December 31, 2023 and 2022, and the results of its changes in net assets and its cash flows for the years then ended, in accordance with the basis of accounting described in Note 2 to the special-purpose financial statements.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Special-Purpose Financial Statements* section of our report. We are required to be independent of the Trust and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter - Basis of Accounting

We draw attention to Note 2 of the special-purpose financial statements which describes the basis of accounting. As described in Note 2, the accompanying special-purpose financial statements were prepared by the Trust on a special-purpose basis of accounting which is a basis of accounting other than accounting principles generally accepted in the United States of America. The special-purpose basis of accounting has been used in order to communicate the amount of net assets presently available to fund current and future claims. As a result, the special-purpose financial statements may not be suitable for another purpose. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Special-Purpose Financial Statements

Management is responsible for the preparation and fair presentation of the special-purpose financial statements in accordance with the basis of accounting as described in Note 2 to the special-purpose financial statements. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair

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presentation of special-purpose financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the special-purpose financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Trust's ability to continue as a going concern within one year after the date that the special-purpose financial statements are issued or available to be issued.

Auditor's Responsibilities for the Audit of the Special-Purpose Financial Statements

Our objectives are to obtain reasonable assurance about whether the special-purpose financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the special-purpose financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the special-purpose financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the special-purpose financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Trust's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the special-purpose financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Trust's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.



Other Matter - Restriction of Use

Our report is intended solely for the information and use of the Trust and is not intended to be and should not be used by anyone other than the specified party. This restriction is not intended to limit the distribution of this report, upon filing with the United States Bankruptcy Court for the District of Delaware, is a matter of public record.

BDO USA, P.C.

McLean, Virginia
April 19, 2024

Special-Purpose Financial Statements

Takata Airbag Tort Compensation Trust Fund
Special-Purpose Statements of Assets, Liabilities and Net Assets

<i>December 31,</i>	2023	2022
Assets		
Cash and cash equivalents	\$ 30,405,288	\$ 134,636,405
Investments	93,423,137	-
Interest receivable	1,686,613	-
Total assets	125,515,038	134,636,405
Liabilities		
Claims payable, accounts payable and accrued expenses	925,523	1,973,537
Taxes payable	300,578	-
Total liabilities	1,226,101	1,973,537
Net assets	\$ 124,288,937	\$ 132,662,868

See accompanying notes to the special-purpose financial statements.

Takata Airbag Tort Compensation Trust Fund
Special-Purpose Statements of Changes in Net Assets

<i>Years Ended December 31,</i>	2023	2022
Additions		
Trust funding	\$ 16,455,123	\$ 9,456,962
Interest income	6,475,725	1,255,819
Total additions	22,930,848	10,712,781
Deductions		
Approved claims	28,423,611	14,689,311
Operating expenses	2,580,590	2,663,759
Income tax expense	300,578	-
Total deductions	31,304,779	17,353,070
Decrease in net assets	(8,373,931)	(6,640,289)
Net assets beginning of the year	132,662,868	139,303,157
Net assets end of the year	\$ 124,288,937	\$ 132,662,868

See accompanying notes to the special-purpose financial statements.

Takata Airbag Tort Compensation Trust Fund

Special-Purpose Statements of Cash Flows

<i>Years Ended December 31,</i>	2023	2022
Cash flows from operating activities:		
Decrease in net assets	\$ (8,373,931)	\$ (6,640,289)
Adjustments to reconcile the decrease in net assets to net cash used in operating activities:		
Changes in operating assets and liabilities:		
Interest receivable	(1,686,613)	16,143
Claims payable, accounts payable and accrued expenses	(1,048,014)	(1,356,995)
Taxes payable	300,578	-
Net cash used in operating activities	(10,807,980)	(7,981,141)
Cash flows from investing activities:		
Maturities of Treasury bills	101,486,541	51,194,520
Purchases of Treasury bills and Treasury notes	(194,909,678)	-
Net cash used in investing activities	(93,423,137)	51,194,520
Net (decrease) increase in cash and cash equivalents	(104,231,117)	43,213,379
Cash and cash equivalents at the beginning of the year	134,636,405	91,423,026
Cash and cash equivalents at the end of the year	\$ 30,405,288	\$ 134,636,405

See accompanying notes to the special-purpose financial statements.

Takata Airbag Tort Compensation Trust Fund

Notes to the Special-Purpose Financial Statements

1. Description of the Trust

The Trust was established on April 10, 2018, as a Delaware Statutory Trust under the laws of the State of Delaware pursuant to an order of the U.S. Bankruptcy Court for the District of Delaware (Bankruptcy Court) pursuant to the Fourth Plan Supplement pursuant to the Fifth Amended Joint Chapter 11 Plan of Reorganization of TK Holdings Inc. and its Affiliated Debtors, filed March 26, 2018 (Plan). The Trust is governed by the provisions of the Trust Agreement dated as of April 10, 2018 (Trust Agreement), the Second Amended Trust Distribution Procedures (TDP), and related Bankruptcy Court approved documents. The provisions of the Trust Agreement, the TDP, and the approved documents are enforceable by the Bankruptcy Court, and, after the close of the TK Holdings Inc. Chapter 11 case, by the U.S. District Court for the District of Delaware (District Court).

The purpose of the Trust is to administer, process, settle, resolve, liquidate and pay certain claims for personal injury or wrongful death caused by the rupture or aggressive deployment of a Takata phase-stabilized ammonium nitrate airbag inflator, as set forth in the Trust Agreement and the TDP, and to preserve, hold and manage the Trust assets for use in paying such claims.

The Trust is administered by the Trustee, whose appointment was approved by the Bankruptcy Court. Eric D. Green was appointed Trustee of the Trust by the Bankruptcy Court. Wilmington Trust, N.A. serves as Delaware Trustee to the Trust.

The Trust is subject to certain review and consent procedures of the PSAN PI/WD Trust Advisory Committee, the PSAN PI/WD OEM (Original Equipment Manufacturers) Advisory Committee, and the Future Claimants' Representative.

The Trust is separate from the Individual Restitution Fund (IRF), established by the United States District Court for the Eastern District of Michigan (Michigan District Court) to compensate claimants for certain personal injuries or wrongful deaths caused by the rupture or aggressive deployment of a Takata phase-stabilized ammonium nitrate airbag inflator. The Trust and the IRF are designed to complement each other and to work in tandem to make distributions to claimants who seek compensation from the Trust and the IRF. Pursuant to the order of the Michigan District Court, the Trustee serves as Special Master of the IRF.

2. Summary of Significant Special-Purpose Accounting Policies

Basis of presentation

The Trust's special-purpose financial statements are prepared using special-purpose accounting methods adopted by the Trustee, which differs from accounting principles generally accepted in the United States of America (U.S. GAAP). The special-purpose accounting methods were adopted in order to communicate to the beneficiaries of the Trust the net assets available for the payment of claims and the operating expenses of the Trust. Since the accompanying special-purpose financial statements are not based upon U.S. GAAP, the accounting treatment by other parties for these same transactions may differ as to timing and amount. The special-purpose accounting methods include the following:

- Trust assets are generally recorded when they are received by the Trust and are available for the payment of claims and the operating expenses of the Trust. The Trust has recorded a receivable for interest earned on its investments but not received as of December 31,

Takata Airbag Tort Compensation Trust Fund

Notes to the Special-Purpose Financial Statements

2023. At December 31, 2022, the Trust only held cash and cash equivalents and as such there was no receivable for interest earned but not received.

- Certain assets of the Trust are restricted for the payment of certain claims and expenses related to such claims.
- Future fixed liabilities under contractual obligations and other agreements entered into by the Trust are recorded as deductions from net assets in the same period that such contractual obligations or agreements are signed. Under U.S. GAAP, liabilities and contractual obligations are recorded over the period that is benefited by the underlying contract or agreement.
- Payments for services to be received over an extended period in the future are expensed as paid because these amounts are no longer available for the payment of claims or operating expenses. Under U.S. GAAP, an asset would be recorded and amortized over the period in which the related benefits are received. The Trust has accrued for expenses incurred but not paid as of December 31, 2023 and 2022.
- Payments for property and equipment are expensed as incurred. Under U.S. GAAP, payments for property and equipment are capitalized and depreciated over the useful lives of the assets. To date, the Trust has incurred no expenses related to purchases of property and equipment.
- Under U.S. GAAP, a provision for income taxes is recorded based upon income reported for financial statement purposes, and federal income taxes currently payable and changes in deferred taxes due to differences between financial reporting and tax bases of assets and liabilities. The Trust records income tax expense (or benefit) associated with amounts payable (or receivable) under current federal income taxes and does not record a provision for (or benefit from) deferred taxes. Accordingly, there is no provision for (or benefit from) deferred taxes.
- Under U.S. GAAP, for financial statement disclosure purposes all investments that are held-to maturity debt securities would be segregated from the available for sale investments and would require disclosure of the net carrying amount and fair value. The accompanying special-purpose financial statements do not segregate the investments.
- Under U.S. GAAP, for financial statement disclosure purposes all investments would be categorized based on the priority of inputs used to measure fair value. Under U.S. GAAP, inputs used in measuring fair value are categorized into three levels. Level 1 includes inputs that are based upon quoted prices for identical instruments traded in active markets. Level 2 includes inputs that are based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar investments in markets that are not active, or models based on valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the investment. Level 3 includes inputs that are generally unobservable and typically reflect management's estimates of assumptions that market participants would use in pricing the asset or liability. The fair values are therefore determined using model-based techniques that include option pricing models, discounted cash flow models, and similar techniques. The accompanying special-purpose financial statements do not categorize investments into these levels.

Takata Airbag Tort Compensation Trust Fund

Notes to the Special-Purpose Financial Statements

- The full amount of claims are expensed in the period in which the confirmed claims are settled. A settled claim is a claim that has been allowed by the Trust and accepted by the claimant, with an approved release. Under U.S. GAAP, a liability would be recorded for an estimate of the amount to be paid for claims that have been incurred but not yet reported, and for those claims that have been submitted but not yet approved for payment by the Trust.

Use of estimates

The preparation of special-purpose financial statements in conformity with the special-purpose accounting methods described above requires the Trust to make estimates and assumptions that affect the reported amounts of certain assets and liabilities and the disclosures of contingent assets and liabilities at the date of the special-purpose financial statements, as well as the reported amounts of additions and deductions to the net assets during the reporting period. Actual results could differ from those estimates and such differences could have a material effect on the net assets available for the payment of claims.

Cash and cash equivalents

The Company considers all highly liquid investments with an original maturity of three months or less at the date of purchase to be cash equivalents. Cash equivalents represent funds invested in readily available and money market funds.

Investments

The Trust generally invests its cash assets in U.S. Treasury bills and U.S. Treasury notes.

The U.S. Treasury notes have scheduled maturities between 1 - 2 years upon purchase.

Claims payable, accounts payable and accrued expenses

Accounts payable and accrued expenses of \$221,663 and \$393,703 consist of outstanding invoices and accruals associated with managing the Trust at December 31, 2023 and 2022, respectively. In addition, accrued expenses include \$703,860 and \$1,579,834 of approved claims that have not been paid as of December 31, 2023 and 2022, respectively.

Operating expenses

Operating expenses of the Trust are paid from the Trust's cash assets when invoices are received.

Income taxes

The Trust is classified as a Qualified Settlement Fund pursuant to the Internal Revenue Code and Regulations thereunder (the Code). In general, a Qualified Settlement Fund is subject to federal income taxes based on modified gross income, as defined by the Code. Income tax expense is estimated and includes amounts payable as receivable under current federal income taxes.

For the years ended December 31, 2023, the Trust incurred a federal tax liability of \$300,578. For the year ended December 31, 2022, the Trust did not incur any federal income tax liability.

Takata Airbag Tort Compensation Trust Fund

Notes to the Special-Purpose Financial Statements

During the year ended December 31, 2022, the Trust generated a net operating loss of \$1,407,945. As of December 31, 2023, the Trust has accumulated net operating loss (NOL) carryforwards totaling approximately \$15,500,000. Approximately \$3,116,000 of the carryforwards were used during the year ended December 31, 2023. As disclosed in Note 2 to the special-purpose financial statements, the Trust does not record a provision for (or benefit from) deferred taxes. Accordingly, there is no provision for a deferred tax asset associated with net operating losses.

The Trust is not subject to state income taxes and, therefore, the special-purpose financial statements do not include any provision or liability for state income taxes.

The Trust is generally no longer subject to income tax examinations by the Internal Revenue Service for the years ended December 31, 2019 and prior.

Risks and uncertainties

The Trust's assets that are exposed to credit risk consist primarily of cash and cash equivalents, and investments in Treasury bills. Cash and cash equivalents are maintained at financial institutions and, at times, balances may exceed federally insured limits. The Trust has never experienced any losses related to these balances. Amounts on deposit in excess of federally insured limits at December 31, 2023 and 2022 approximated \$29,905,000 and \$133,900,000, respectively.

Pursuant to a Bankruptcy Court approved investment policy for the Trust, the Trust invests a majority of its assets into U.S. Treasury bills and Money Market Accounts which generate interest income. The amount of interest income to be earned by the Trust will be subject to fluctuations of yield based upon market conditions.

3. Initial Trust Funding and Trust Funding

In 2018, the Trust was initially funded with \$133,906,272 of cash contributed by TK Holdings, Inc. and Affiliated Debtors, including Participating Original Equipment Manufacturers (POEM) assets, pursuant to the Plan and related court approved agreements. As part of the initial Trust funding in 2018, POEM assets for Honda/Acura, contributed to the Trust were \$10,500,000. In 2023 and 2022, the Trust was funded with additional cash contributions of \$16,455,123 and \$9,456,962, respectively, including POEM assets. In 2023 and 2022 additional POEM contributions for Honda/Acura of \$9,808,974 and \$5,404,112, respectively, were made. POEM assets are available to the Trust to secure contribution obligations of the POEM in satisfaction of POEM claims and POEM expenses. For the years ended December 31, 2023 and 2022, there were two POEM parties; Honda/Acura and Nissan. In 2023 and 2022, Nissan contributed \$6,646,149 and \$88,780, respectively, to the Trust as Nissan POEM assets. The Trust had no other contributions as of December 31, 2023. During the year ended December 31, 2022, the Trust had \$3,964,070 of other contributions.

4. Related Parties

Pursuant to Bankruptcy Court approved agreements, the Trustee performs his duties under the Trust Agreement, the TDP and the related documents through retention agreements with several service providers, including Resolutions, LLC, which is a related party to the Trustee. For both the years ended December 31, 2023 and 2022, the Trust incurred \$900,000 for services performed by Resolutions, LLC. The Trust had \$75,000 payable to Resolutions, LLC for services performed during both years ended December 31, 2023 and 2022.

Takata Airbag Tort Compensation Trust Fund

Notes to the Special-Purpose Financial Statements

5. Contingent Liabilities

The Trust Agreement subjects the Trust to certain indemnification obligations that may result in future claims against the Trust. The probability of such claims cannot be reasonably determined. Accordingly, no associated liability has been recorded in the accompanying special-purpose financial statements. Such claims, if any, are not expected to be material. The Trust has obtained liability insurance with respect to its obligations to indemnify the Trustee, the members of the Trust Advisory Committee, the Future Claimants' Representative and certain service providers to the Trust.

6. Trust Liability Insurance

The Trust purchased liability insurance requiring premiums of \$287,850 in 2018 for the policy term through November 11, 2022. The Trust renewed its liability insurance in November 2022 for a three year policy term, ending November 2025 for \$250,000. The Trust's special-purpose accounting policy is to expense in the current period any amounts that will not be available to pay future claims or operating expenses of the Trust. Accordingly, insurance premiums were recorded as reductions in net assets during the period from April 10, 2018 (inception) through December 31, 2018 and for the year ended December 31, 2022. The \$250,000 was included in claims payable, accounts payable, and accrued expenses at December 31, 2022, and the premium was paid in January of 2023.

7. Claim Liabilities

The TDP is designed to provide an efficient process to fairly and reasonably compensate, as swiftly as possible, certain valid personal injury and wrongful death claims as set forth in the Trust Agreement and the TDP. The TDP distinguishes between (i) TD (Takata Defendant) claims, which are current and future personal injury or wrongful death claims arising out of the rupture or aggressive deployment of a Takata phase-stabilized ammonium nitrate airbag inflator (other than POEM claims), and (ii) POEM claims which are current and future personal injury or wrongful death claims arising out of the rupture or aggressive deployment of a Takata phase-stabilized ammonium nitrate airbag involving a vehicle manufactured or sold by a POEM. By agreement with each of the POEMs, the Trust has the goal of fully compensating POEM claims through additional POEM contributions to the Trust.

The TDP establishes a relative valuation process adopted from and approved by the Michigan District Court with respect to the IRF. That valuation process classifies each compensable claim into an injury category which is assigned points. The points assigned to each claim are converted into a monetary award based on the value of each point. The dollar value of each point may be adjusted periodically in accordance with the provisions of the TDP.

The Trust is also responsible for administering and valuing "Other PI/WD Claims": personal injury or wrongful death claims caused by a Takata product other than a PSAN inflator. Unlike TD claims and POEM claims, Other PI/WD claims are not governed by the TDP. Approximately \$1,100,000 is reserved to pay Other PI/WD claims as of December 31, 2022. There was no reserve recorded to pay Other PI/WD claims as of December 31, 2023. A portion of this reserve may be reallocated to compensate TD claims depending on the final disposition on all Other PI/WD claims.

Takata Airbag Tort Compensation Trust Fund

Notes to the Special-Purpose Financial Statements

8. Subsequent Events

The Trust has evaluated its December 31, 2023 special-purpose financial statements for subsequent events through April 19, 2024, the date the special-purpose financial statements were available to be issued. The Trust is not aware of any subsequent events which would require recognition or disclosure in the special-purpose financial statements.

Supplementary Information



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Independent Auditor's Report on Supplementary Information

Trustee
Takata Airbag Tort Compensation Trust Fund
Boston, Massachusetts

Our audits of the special-purpose financial statements included in the preceding section of this report were conducted for the purpose of forming an opinion on those special-purpose statements as a whole. The supplementary information presented in the following section of this report is presented for purposes of additional analysis and is not a required part of those special-purpose financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the special-purpose financial statements. The information has been subjected to the auditing procedures applied in the audit of the special-purpose financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the special-purpose financial statements or to the special-purpose financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the special-purpose financial statements as a whole.

BDO USA, P.C.

April 19, 2024

Takata Airbag Tort Compensation Trust Fund

Supplementary Schedules of Operating Expenses

<i>Years Ended December 31,</i>	2023	2022
Trustee fees and expenses	\$ 921,039	\$ 914,979
Other professional fees and expenses	693,603	446,843
Future Claimants' Representative and Future Claimants' Representative Counsel fees and expenses	254,722	215,107
Legal fees and expenses	229,161	466,977
Accounting fees and expenses	174,963	138,946
Trust Advisory Committee fees and expenses	130,029	33,857
Claims administrator fees and expenses	119,357	139,325
Insurance expenses	57,500	307,500
Miscellaneous operating expenses	216	225
Total operating expenses	\$ 2,580,590	\$ 2,663,759

See independent auditor's report on supplementary information.